CGAP Note Book 1
Dimensions and Dynamics of MFI Competition in Bangladesh[1]

There has been a rapid growth both in the number of microfinance institutions (MFIs) and the clients served in Bangladesh, especially during the 1990s. The situation and the topical issues of concern are dramatically different from those that existed even at the beginning of the 1990s -- the issue then was about expanding outreach, while now it's about finding innovative ways of including poorer clients and competition management.

Given CGAP's commitment to engender, explore and expand a learning process on frontier issues and challenges facing the microfinance industry around the world, the emerging phenomenon of MFI competition in a mature microfinance market such as Bangladesh is of natural interest. This informal note is to share with the microfinance community some thoughts that emerged from a recent CGAP research initiative on this matter. The research is still on-going, so the observations are anecdotal and based on my conversations with key MFI leaders, field level staff and clients.

The research has two parts. The first part of the study is a mapping of microfinance client concentration at the thana level (the administrative unit below the district level). This will involve collecting branch-specific information on location[2], name of the thana(s) of operation and client outreach information of the top 20 MFIs in Bangladesh. For this, CGAP is working with the Credit and Development Forum (CDF), a network organization of NGO-MFIs in Bangladesh which also maintains and publishes an impressive database (CDF Bulletin) on MFIs in Bangladesh. Such thana-specific outreach information can then be used to get thana-level MFI concentration ratios by using census demographic data.[3]. PKSF, the microfinance-apex body in Bangladesh, has shown interest in maintaining and updating the database that will emerge from this part of the work as a part of its monitoring and evaluation system. CDF also plans to include this information base into their databank.

The second part of this research is an intensive micro study to explore the various dimensions and dynamics of MFI competition emerging in Bangladesh. For this, an area where MFI competition is pretty intensive has been purposefully selected. We will use a combination of quantitative questionnaire surveys, focusing on the microfinance participation history of households and qualitative case studies, focus group discussions and intensive interviews that build on the quantitative survey. The overall research is also expected to provide useful information for any type of intra-industry instrument that the

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[1] Imran Matin is the task manager of this research initiative and prepared this brief note.

[2] This is essentially the mailing address of the branch which will help us do reasonable guess-estimates of thana-specific outreach of branches that operate in more than one thana.

[3] Obviously, at least two other estimates are needed—one, the potential market size and two, the degree of multiple membership. We can get a range of concentration ratios depending on various assumptions of these two figures.

microfinance industry in Bangladesh might want to pursue to manage possible systemic risk arising from uncoordinated competition.

Below, I list a few observations which emerged during my two-week trip to Bangladesh to prepare for this research:

- The most prominent implications of MF competition discussed within the MF industry in Bangladesh is ‘overlapping’—a term whose definition itself has undergone changes over the years. The term was first used very broadly to denote similar service-providing NGOs working within a geographical area. In recent times, the term is used to indicate multiple microfinance membership at the level of the household.

- Measurement of this is difficult however and cannot be achieved only by exchanging membership lists of MFIs as these do not typically include membership at the household level—but only of individual clients. This can be major limitation as a significant extent of multiple membership occur not at the level of the individual client, but at the level of the household. As far as repayment risk to the MFIs are concerned, the two types of multiple membership, in a majority of cases, are equally strong as it is the household unit’s cash-flow and not that of the individual that determined repayment.

- Partly due to this measurement difficulty, the *perception* of the extent of multiple membership is quite varied, even at the field level (I have heard percentages ranging from 10 to 50 from staff of the same MFI). According to a large-scale, nationally representative study done by the Bangladesh Institute of Development Studies (BIDS), around 15% of current microfinance member households have multiple MFI membership.

- Most MFIs in Bangladesh do not feel that ‘overlapping’ has led to any discernible drop in repayment figures, at least not yet. Most MFIs however do feel that there could be a long term relationship between overlap and delinquency, especially if not managed. There is very little systematic data collection on these variables to enable the MFIs to gain a comprehensive picture on the causes of repayment irregularity of various types. At the field level, ‘overlapping’ is seen to adversely affect repayment by weakening traditional repayment incentives, such as access to future loans and progressive lending. Interviews with field staff suggest that collection of irregular repayment is much more difficult now than before, and this, according to them, is to a large degree due to MFI concentration.

- From the MFI perspective at the field level, multiple membership is most often triggered by underlying repayment difficulties of the client household. Often, multiple membership is a short-term attempt to cross-finance and manage repayment regularity--- it fails to be sustainable for most clients.

- Such a view also seemed to be supported by clients. Even in cases when multiple membership is not triggered by an underlying repayment difficulty and is driven by a larger credit need, most often, such attempts to move on to larger scale investments fail.

- The consequences of over-lending and over-borrowing is strongly felt, both by the MFIs and the clients. Prudent borrowing and lending according to debt absorption capacity is often discussed by both parties and seen as a virtue. Most MFIs, for instance, do not want to offer simultaneous loans, have loan ceilings and are careful about progressive lending. However, such conservatism, when applied indiscriminately and without prior signal, can sometimes actually trigger default due to client dissatisfaction and inability of clients to manage cross-financing.

- Informal information that field workers have on a client household's existing MFI debt obligations is often incomplete and known only after the lending decision has been made. It was widely agreed that effective information sharing needs a more formalized, collective effort between MFIs.

- Though most field staff thought that having more on-time information about existing debt obligations of a client household could be a useful loan assessment tool, they were skeptical about the accuracy and up-to-dateness of such information, as such a database would need to be updated almost every day to remain up to date. Given the existing computerization level of most MFI field operations, such an information transfer would also be burdensome. Moreover, the household unit also changes over time and tracking this would be challenging.

- Sometimes, especially for later entrants working in the same area, field staff are forced to meet preset targets and ignore any information they might have about the household's existing MFI debt obligations. Targets are sometimes set centrally without adequate information on local markets and existing providers.

- There are interesting differences in the dynamics among MFIs of various sizes. Larger national MFIs and some district-level MFIs offer much larger first-time and more progressive loans compared to smaller players. They can also provide much quicker repeat loans. On the other hand, smaller MFIs, often working in a single thana , employ locals as field staff and enjoy a comparative advantage in contract enforcement due to better information and personal relationships with the clients. Smaller MFIs often complain about their more mature clients being cherry-picked by larger MFIs. Larger MFIs often complain about smaller MFIs giving credit to their clients and thereby endangering their repayment performance.

- As a part of its second phase activities, PKSF plans to create a national credit bureau database in order to manage any systemic risk that uncoordinated competition among MFIs might cause. CGAP has shown interest in supporting such an initiative in building industry infrastructure for the development of healthy microfinance in Bangladesh. This research, by highlighting the various dimensions and dynamics of MFI competition and the extent of MFI concentration at the thana level, should provide important background information to this effort.

We will keep you posted on the progress of this research. In the meantime, if you would like to share with us any thoughts and ideas you might have on the issues above or learn more about the research methodology and other details of this research initiative, please feel free to contact me at cgap@worldbank.org.